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C O N F I D E N T I A L SECTION 01 OF 04 ROME 001308

SIPDIS

EEB FOR SE GRAY
EEB FOR DAS HENGEL
EEB FOR DAS BRYZA
EEB FOR AMBASSADOR MANN
EEB FOR CBA SR FRANK MERMOUD

E.O. 12958: DECL: 10/28/2018

TAGS: [PGOV](#) [PREL](#) [ECON](#) [ENRG](#) [IT](#) [RU](#) [AZ](#)

SUBJECT: ITALIAN ENERGY ISSUES: SPECIAL ENVOY C. BOYDEN
GRAY DISCUSSES CASPIAN ENERGY; ENI SOUTH STREAM RUSSIAN
TROUBLES; SKEPTICISM OVER 20-20-20 AND CHOOSING BETWEEN
U.S. AND FRENCH NUCLEAR TECHNOLOGY

REF: A) ROME 451 B) ROME 1101

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Classified By: Minister Counselor Thomas L. Delare
for reasons 1.4 b, d and e

1. (C) SUMMARY: On October 9 and 10, 2008, Special Envoy C. Boyden Gray visited Rome and met with key energy officials of the Italian Government and private sector. Major points of discussion revealed Italian worry about Caspian gas, namely whether the Turks will agree to let a sufficient amount of gas flow west to Greece and Italy, and whether the Azeris might lack the gas and/or the political will needed to make the Turkey-Greece-Italy pipeline project happen. Italy will convene a Turkey-Greece-Italy-Azerbaijan meeting in December or January in an effort to nail down positions. Regarding the South Stream pipeline, ENI officials report a lack of any definitive agreement to confirm their "partnership" with GAZPROM -- this project appears to be on hold. Italian energy officials are deeply skeptical about Europe's 20-20-20 emissions goals. A key GOI energy official told SE Gray that the nuclear energy agreement that Berlusconi will sign with the Russians in November will not be significant. Finally, the Italians seem to be leaning towards the French in their re-nuclearization project, though Embassy efforts have opened up the possibility of fast-track approval of U.S. nuclear technology too. End Summary

ENI HAVING TROUBLE WITH ITS RUSSIAN PARTNERS OVER SOUTH STREAM-----

2. (C) Sergio Garribba, Energy Advisor to Economic Development Minister Scajola, told SE Gray that the Italian energy parastatal ENI has been having serious problems with the Russians. For over a year, ENI has been telling us that it had entered into a full 50-50 partnership with GAZPROM on the South Stream (Black Sea) pipeline project, and that in this partnership, ENI would go far beyond merely building the pipeline for Gazprom (as they did on Blue Stream and as they are doing on Nord Stream). This new arrangement would, we were told, have made ENI a full partner with Gazprom in the sale of the gas sent through the new pipe.

3. (C) Garribba explained, however, that during the summer ENI asked the GOI for help. Garribba said the company is concerned that it has no formal contract with the Russians. ENI's concern was apparently peaked by the fact that the Russians were signing contracts with Bulgarians and others that did not include ENI as a partner. Minister Scajola went

to Moscow in an effort to get ENI the contract that it wanted, and proposed the formation of a "working group" to hammer out the contract's details. The Minister provided a list of possible Italian participants and asked the Russians to do the same. Garribba said the Russians never responded. "ENI has nothing on paper from the Russians on the partnership," stated Garriba, "All they have is an agreement to do a study." Garriba spoke as if South Stream is not going to happen. But he said he thinks the Russians may try to double the capacity of Blue Stream (the pipe that goes from Russia to Turkey on the Eastern side of the Black Sea). He said that technically this route would be a lot easier.

14. (C) ENI officials told Ambassador Gray essentially the same thing, stating that ENI is accused of nefarious collaboration with Gazprom on South Stream when all ENI has is the agreement with Gazprom to do a feasibility study though their 50-50 joint venture. ENI, however, is interested in securing the contract to build South Stream, as well as obtaining from Gazprom rights to sell South Stream gas to Eastern Europe. (Under current market ceilings set by Italian anti-trust law, due to expire in 2010 unless renewed, ENI would not be able to sell the gas in Italy.) Gazprom is

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interested in selling gas directly in Italy.

15. (C) During a separate October 21 meeting, ENI's South Stream manager told EconOff that, "in my opinion, South Stream has less than 5 percent chance of being built in the next five years." He further explained that Gazprom will face major problems in the near future in raising the capital it needs to finance projects.

SOUTHERN CORRIDOR: ITALIANS WORRIED ABOUT AZERIS, NOT THE
TURKS

16. (C) On the Turkey-Greece-Italy southern corridor project (TGI), SE Gray told Garribba that we think the problem is primarily in Turkey -- the Turks are demanding too much Azeri gas, and are unwilling to let a sufficient amount transit their country. Garribba emphatically disagreed. He said Italy has an "informal agreement" with the Turks to let 6-7 bcm of gas pass through TGI to the West. Garribba said that Italy's concerns are focused on Azeri ability and willingness to sell gas to the West. He said he doubted that the Azeris had enough gas to meet both their domestic needs and the requirements for TGI. SE Gray told Garribba that the USG is confident that the Azeris will supply the gas to western pipelines. "We can deliver the Azeris, if you can deliver the Turks," said Gray. Garribba said he would be able to give a definitive answer on the Turkish position "within four months." He explained that Italy is setting up a quadrilateral meeting (Italy, Greece, Turkey, and Azerbaijan) this December or in January 2009 in an effort to nail these issues down. But he said at this point he is not sure that the TGI pipeline will be built.

17. (C) In a separate meeting, MFA's Economic Bureau Director General Magliano also indicated that Turkey is not the problem. Magliano told SE Gray that Italy has excellent relations with Turkey but not with Azerbaijan. SE Gray told Magliano the same thing he told Garriba, that if Italy can deliver Turkey, we can deliver Azerbaijan. Magliano was non-committal, however, thanking SE Gray and stating that the GOI would call on the USG's assistance if needed. The Georgia crisis had created a problem for the Nabucco pipeline, he said, which made TGI more practical. On the GOI's position for the various gas projects, he summed it up as, "the more pipelines, the better". Magliano said that following this principle, Italy supports TGI, Nabucco, South Stream and Nord Stream.

18. (C) TGI's private sector partner on the Italian side, Edison, is not quite as sanguine about Turkey and worries that there might be problems there. Edison's CEO Quadrino explained to SE Gray that the plan is for Minister Scajola to go to Greece in the very near future, followed by a trip to Azerbaijan to obtain agreement. This may lay the ground work for a deal with Turkey during the quadrilateral meeting later this year or early in 2009. Quadrino said that the goal would be to reach clear splits of the gas volumes.

19. (C) Garribba warned that the first of the Caspian Sea pipeline projects to be finished "will be the winner" because the market for gas will be saturated. Regarding Italy's gas situation, Garriba said that if many of the proposed pipelines and LNG terminals are completed, Italy will have gas supplies excess to its needs. At that point Italy would market gas to land-locked EU countries that lack access to LNG. On energy diversification, Garriba said that he would someday like to set limits on how much energy suppliers could bring in from Russia. Companies might be told, for example, that only 70 of their total imports could come from Russia.

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20-20-20, Russian Nuclear Agreements, French Nuclear Reactors

10. (C) Garribba was harshly critical of the 20-20-20 GHG goals, calling them unrealistic, and lamented the lack of coordination among environment, energy and economic ministries. (Note: energy companies Edison and ENI expressed to SE Gray similar skepticism over the 20-20-20 date and target goals. End note)

11. (C) When asked about a planned November 7 Berlusconi visit to St. Petersburg, Russia, and about reports that some sort of atomic energy agreement would be signed, Garribba at first didn't seem to understand what we were asking about, but when he caught on he laughed and threw up his hands in a dismissive gesture. "Oh that," he said, "That's a joke. That's just for public relations. That's not important." He went on to dismiss the idea that Italy would opt for Russian technology for its nuclear power program (Note: He is probably right -- the Italians ended their previous nuclear power project in response to the Chernobyl catastrophe -- but given the close relationship between Berlusconi and Putin, we can't be completely sure that their nuclear agreement will be devoid of substance. End note).

12. (C) On nuclear power, Garriba seemed to indicate that a number of companies would be "invited to invest" in nuclear power as "Italy is a free market and the GOI cannot dictate to private companies". He listed a number of possible candidates, all of them European (ENEL, EON, Edison). We asked about U.S. companies, and Garriba responded that a company like Westinghouse might be asked by one of the "investor" companies to supply reactors to the project. He added that Italy may opt to use two different reactor designs. He said that the favorite technology may be French as most of the potential power companies that might invest in Italy seem to favor the Areva ERP design. He reiterated Minister Scajola's goal of obtaining an Italian energy mix by 2030 of 25 percent nuclear power, 25 percent renewables and 50 percent fossil fuels. (Note: Post was able to persuade the GOI to change a version of nuclear draft legislation that would have waived Italian certification approval to nuclear power plant designs certified by other EU governments. The new draft applies the waiver to all designs certified by any OECD country. This opens the door for U.S. firms, assuming the legislation makes it through both houses of parliament in its current form. End note)

COMMENTS

13. (C) ENI now seems to be claiming that their South Stream deal with the Russians was always a bit tentative, but in February 2008 (REF A) ENI seemed to be gloating over what they apparently thought was more of a done deal. (However, even at the time they did tell us that they thought there was only a 60 percent chance that South Stream would actually be built). GOI uneasiness about the Azeri gas situation is similar to concerns Edison expressed to us last August (see REF B).

14. (C) We hope Garribba is right about the lack of substance in whatever nuclear agreement Berlusconi signs with Putin. GOI officials occasionally include Russia on their lists of possible nuclear power plant suppliers, but others (Garribba included) tell us that the Russians are not really in the

competition. Italian officials know they have to overcome deep safety/NIMBY concerns, concerns that were stirred up by the 1987 melt-down of the Chernobyl nuclear power plant.

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15. (C) While the Russians may be out of the running, we fear the French may have the inside track due to their lobbying efforts at the highest levels, and the fact that the European power companies that will likely build nuclear plants in Italy all have some type of French connection. Post will continue its energetic efforts to ensure that U.S. companies have a fair chance to market U.S. nuclear power plant technology in Italy.

SPOGLI

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